

Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

HURON SHORE REGIONAL UTILITY AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2007

Offices:
East Tawas
West Branch

325 Newman Street, East Tawas, MI 48730
www.stephensongracik.com
989-362-4491 . 989-362-8351 Fax

Members:
A.I.C.P.A.
M.A.C.P.A.

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PAGE

AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT 1

MANAGEMENT'S DISCUSSION AND ANALYSIS 2 - 4

BASIC FINANCIAL STATEMENTS

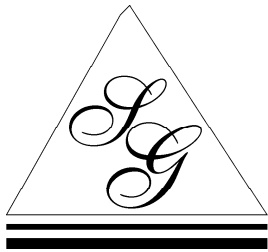
EXHIBIT A STATEMENT OF NET ASSETS 5

EXHIBIT B STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS 6

EXHIBIT C STATEMENT OF CASH FLOWS 7

EXHIBIT D NOTES TO FINANCIAL STATEMENTS 8 - 15

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*** 16 - 17



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March 5, 2008

Independent Auditors' Report

Members of the Board
Huron Shore Regional Utility Authority
Iosco County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Huron Shore Regional Utility Authority, Iosco County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Huron Shore Regional Utility Authority's basic financial statements, as listed in the index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the business-type activities of the Huron Shore Regional Utility Authority, Iosco County, Michigan, as of December 31, 2007, and the respective changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2008, on our consideration of the Huron Shore Regional Utility Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.



Huron Shore Regional Utility Authority

Phone (989) 362-0050 Fax (989) 362-0222
247 Baldwin Resort Road, East Tawas, Michigan 48730



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Huron Shore Regional Utility Authority**, (the Authority) we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended December 31, 2007.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$13,686,589 (*net assets*) for the fiscal year reported. Of this amount, \$1,217,227 (*unrestricted net assets*) represents the portion available for spending.
- The Authority's total net assets increased by \$504,665 or 3.8% over the course of the year's operations.
- The Authority's total operating expenses increased by \$13,485 primarily due to tank wall repairs in the current year of \$11,950.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the financial statements. The notes to financial statements are presented in Exhibit D of this report.

Analysis of Financial Position

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets, and the Statement of Revenue, Expenses, and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and the changes in them. One can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

Summary of Net Assets

The following summarizes the net assets of the Huron Shore Regional Utility Authority at December 31, 2007 and 2006:

	Net Assets Summary	
	<u>2007</u>	<u>2006</u>
Current Assets	\$ 1,335,237	\$ 1,184,044
Restricted Assets	8,622	7,532
Capital Assets – net	<u>15,004,110</u>	<u>15,315,814</u>
Total Assets	<u>16,347,969</u>	<u>16,507,390</u>
Current Liabilities	141,380	150,466
Long-Term Liabilities	<u>2,520,000</u>	<u>3,175,000</u>
Total Liabilities	<u>2,661,380</u>	<u>3,325,466</u>
Net Assets		
Invested in Capital Assets ,		
Net of Related Debt	12,460,740	12,111,604
Restricted for Debt Service	8,622	7,532
Unrestricted	<u>1,217,227</u>	<u>1,062,788</u>
Total Net Assets	<u>\$ 13,686,589</u>	<u>\$ 13,181,924</u>

Capital Asset and Debt Administration

Capital Assets. The Authority's investment in capital assets as of December 31, 2007, amounted to \$15,004,110 (net of accumulated depreciation). This investment in capital assets includes the land and distribution and collection system. Net capital assets for the Authority decreased by \$311,704. The distribution and collection system increase was for new meters installed. Total depreciation expense for this year amounts to \$381,789 with ending accumulated depreciation being \$3,998,446.

Capital Assets Summary (Net of depreciation)

Land	\$ 14,958
Distribution and collection system	<u>14,989,152</u>
Capital Assets - net	<u>\$ 15,004,110</u>

Additional information on capital assets can be found in Exhibit D.

Long-Term Debt

At year end, long-term debt (due in more than one year) amounted to \$1,875,000. Such debt includes *Bonds Payable*. Additional information on long-term debt can be found in Exhibit D.

Net Assets Restricted for Debt Service

As previously noted, the unreserved net assets amounts to \$1,217,227 and is available for spending at the Authority's discretion. The remaining restricted net assets are to be used for the retirement of general obligation bond issues.

Summary of Revenues and Expenses:

The following summarizes the revenues and expenses of the Huron Shore Regional Utility Authority at December 31, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Operating revenue	\$ 844,303	\$ 827,825
Non operating revenue	<u>872,245</u>	<u>903,702</u>
Total revenue	<u>1,716,548</u>	<u>1,731,527</u>
Depreciation expense	381,789	380,898
Other operating expenses	661,979	649,385
Non-operating expenses	<u>168,115</u>	<u>208,203</u>
Total expenses	<u>1,211,883</u>	<u>1,238,486</u>
Change in net assets	504,665	493,041
Net assets – beginning of year	<u>13,181,924</u>	<u>12,688,883</u>
Net assets – end of year	<u>\$ 13,686,589</u>	<u>\$ 13,181,924</u>

Economic Factors and Next Year's Budget and Rates

The management of the Authority considered many factors in setting the fiscal year 2008 budget. As always, the overriding factor was to keep expenses at or below the amount of revenue. The majority of revenue generated by the Authority is derived from operations and maintenance fees. These fees are collected from each municipality based on water consumption, that are part of the Authority's joint venture, and are used to pay for operating expenses incurred by the Authority. The Authority also receives reimbursements from its member municipalities that are used to pay debt payments.

The most significant expenses remain professional services paid to Earth Tech for operations and maintenance of the Authority and depreciation.

Requests for Information

This financial report is designed to provide a general overview of the Huron Shore Regional Utility Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Huron Shore Regional Utility Authority, 247 N. Baldwin Resort, East Tawas, Michigan 48730.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

STATEMENT OF NET ASSETS
 December 31, 2007
With Comparative Totals for December 31, 2006

	<u>2007</u>	<u>2006</u>
<u>Assets</u>		
Current assets:		
Cash and cash equivalents (Note 2)	\$ 1,292,502	\$ 1,130,619
Due from local units	23,370	29,210
Prepaid expenses	<u>19,365</u>	<u>24,215</u>
Total current assets	1,335,237	1,184,044
Restricted assets:		
Cash and cash equivalents (Notes 1 and 2)	8,622	7,532
Noncurrent assets:		
Capital assets, net (Note 3)	<u>15,004,110</u>	<u>15,315,814</u>
Total Assets	<u>16,347,969</u>	<u>16,507,390</u>
<u>Liabilities</u>		
Accounts payable	118,010	117,136
Accrued interest	23,370	29,210
Deferred revenue	0	4,120
Long-term liabilities:		
Due within one year (Note 4)	645,000	655,000
Due in more than one year (Note 4)	<u>1,875,000</u>	<u>2,520,000</u>
Total Liabilities	<u>2,661,380</u>	<u>3,325,466</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	12,460,740	12,111,604
Restricted for:		
Debt service	8,622	7,532
Unrestricted	<u>1,217,227</u>	<u>1,062,788</u>
Total Net Assets	<u>\$ 13,686,589</u>	<u>\$ 13,181,924</u>

The accompanying notes to financial statements are an integral part of this statement.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN NET ASSETS
 For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

	<u>2007</u>	<u>2006</u>
<u>Operating Revenue</u>		
Charges for services	\$ 760,340	\$ 770,000
Rent	49,440	49,440
Other	34,523	8,385
Total operating revenue	<u>844,303</u>	<u>827,825</u>
<u>Operating Expenses</u>		
Insurance	30,767	31,129
Legal and audit	41,050	41,422
Maintenance and repairs	20,863	7,722
Miscellaneous	390	393
Professional services	547,109	546,956
Printing and publishing	873	836
Utilities	20,927	20,927
Depreciation	381,789	380,898
Total operating expenses	<u>1,043,768</u>	<u>1,030,283</u>
Operating loss	<u>(199,465)</u>	<u>(202,458)</u>
<u>Non-operating Revenue (Expenses)</u>		
Local reimbursements	823,115	868,203
Interest earned	49,130	35,499
Interest expense	(167,415)	(202,503)
Paying agent fees	(700)	(700)
Contribution to local units	0	(5,000)
Total non-operating revenue (expenses)	<u>704,130</u>	<u>695,499</u>
Change in net assets	504,665	493,041
Net assets - beginning of year	<u>13,181,924</u>	<u>12,688,883</u>
Net assets - end of year	<u>\$ 13,686,589</u>	<u>\$ 13,181,924</u>

The accompanying notes to financial statements are an integral part of this statement.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

STATEMENT OF CASH FLOWS
 For the Year Ended December 31, 2007
With Comparative Totals for the Year Ended December 31, 2006

	<u>2007</u>	<u>2006</u>
<u>Cash Flows From Operating Activities</u>		
Cash received from customers	\$ 840,183	\$ 827,825
Cash paid to suppliers for goods and services	<u>(660,120)</u>	<u>(631,883)</u>
Net cash provided by operating activities (Note 6)	<u>180,063</u>	<u>195,942</u>
<u>Cash Flows From Noncapital Financing Activities</u>		
Cash paid to local units	<u>0</u>	<u>(5,000)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Reimbursements from local units	828,955	873,629
Cash purchase of property, plant and equipment	(66,220)	(30,000)
Repayment of bonds payable	(655,000)	(665,000)
Interest and paying agent fees paid	<u>(173,955)</u>	<u>(208,629)</u>
Net cash used by capital and related financing activities	<u>(66,220)</u>	<u>(30,000)</u>
<u>Cash Flows From Investing Activities</u>		
Interest on investments	<u>49,130</u>	<u>35,499</u>
Net increase in cash and cash equivalents	162,973	196,441
Cash and cash equivalents at beginning of year (Note 1)	<u>1,138,151</u>	<u>941,710</u>
Cash and cash equivalents at end of year (Note 1)	<u>\$ 1,301,124</u>	<u>\$ 1,138,151</u>

The accompanying notes to financial statements are an integral part of this statement.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Huron Shore Regional Utility Authority conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The following is a summary of the significant accounting policies.

A. Description of Authority's Operations

The Huron Shore Regional Utility Authority (Authority) operates as a joint venture under the supervision and control of a Board consisting of one representative from each of the following constituent municipalities: City of East Tawas, City of Tawas City, Charter Township of Oscoda, Charter Township of AuSable, Township of Alabaster, Township of Baldwin, and Township of Greenbush. The Authority was established as a joint venture among the above-mentioned municipalities for the purpose of acquiring, owning, improving, enlarging, extending and operating water supply and distribution systems and sewage disposal systems in accordance with the authorization of Act 233, P.A. of Michigan, 1955, as amended.

The basic financial statements of the Huron Shore Regional Utility Authority are prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Authority applies all relevant Governmental Accounting Standards Board (GASB) and Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions, that apply to all proprietary fund type activities, issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Authority exercises oversight responsibility have been included in the reporting entity.

Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Authority's Enterprise Fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basis of Presentation

The Authority's basic financial statements consist of a statement of net assets, a statement of revenue, expenses and changes in net assets, and a statement of cash flows. Government wide financial statements report information about the Authority as a whole. The Authority has only one fund which is business-type in nature, so the financial statements present one set of statements that meets both the government-wide and fund requirements.

A statement of net assets provides information about the assets, liabilities, and net assets of the Authority at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy Authority obligations. Invested in capital assets, net of related debt represents the value of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operation purposes.

A statement of revenue, expenses and changes in net assets provides information about the Authority's financial activities during the year ended December 31, 2007. Revenue and expenses are classified as either operating or nonoperating, and all changes in net assets are reported. Operating revenues and expenses generally result from providing services for the operation of the water distribution systems. Other revenues, such as local reimbursements for debt payments, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of maintaining the water distribution system, administrative expenses, and depreciation on capital assets.

A statement of cash flows provides information about the Authority's sources and uses of cash and cash equivalents during the year ended December 31, 2007. Increases and decreases in cash and cash equivalents are classified as either operating, noncapital financing, capital financing, or investing.

D. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Use of Estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

G. Capital Assets

Capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Expenditures for maintenance, repairs and renewals are charged to operations as incurred and betterments are capitalized. The Authority eliminates the cost and related allowances from the accounts for assets sold or retired and resulting gains or losses therefrom are included in operations concurrently. Donated fixed assets are recorded at their fair market values as of the date received.

H. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

I. Restricted Assets and Restricted Net Assets

The restricted assets and restricted net assets represent the assets to be used for the retirement of general obligation bond issues.

J. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Authority, these revenues are charges for services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

K. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS

At year-end, the Authority's deposits and investments were reported in the basic financial statements in the following categories :

<u>Current Assets</u>	
Cash and Cash Equivalents	\$ 1,292,502
<u>Restricted Assets</u>	
Cash and Cash Equivalents	<u>8,622</u>
	<u>\$ 1,301,124</u>

The breakdown between deposits and investments is as follows:

Bank deposits (checking and savings accounts)	\$ 9,785
Investment in financial institution pooled funds	<u>1,291,339</u>
Total	<u>\$ 1,301,124</u>

As of December 31, 2007, the Authority had the following investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Specific Identification Maturities</u>
Investment pools	<u>\$ 1,291,339</u>	Daily

Credit Risk

State law authorizes investments in investment pools as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a local governmental unit in Michigan. The Authority's investment pools are unrated.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of December 31, 2007, \$0 of the Authority's bank balance of \$9,785 was exposed to custodial credit.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities approved in the Authority's investment policy which is in accordance with State law.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk, Interest Rate Risk and Foreign Currency Risk

The Authority's investment policy does not address concentration of credit risk, interest rate risk or foreign currency risk.

Investments:

The Authority has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Authority to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investments by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Authority's deposits and investments are in accordance with statutory authority.

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

	Balance <u>01/01/07</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>12/31/07</u>
Land	\$ 14,958	\$ 0	\$ 0	\$ 14,958
Distribution and collection system	<u>18,917,513</u>	<u>70,085</u>	<u>0</u>	<u>18,987,598</u>
	18,932,471	70,085	0	19,002,556
Less accumulated depreciation	<u>(3,616,657)</u>	<u>(381,789)</u>	<u>0</u>	<u>(3,998,446)</u>
Net capital assets	<u>\$ 15,315,814</u>	<u>\$ (311,704)</u>	<u>\$ 0</u>	<u>\$ 15,004,110</u>

Capital assets are stated at cost. Depreciation is calculated using the straight-line basis at the rate of 2% to 20% per year. The estimated useful lives are as follows:

Distribution and collection system	50 years
Computer equipment	5 years

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 4 - LONG-TERM DEBT

Bonds Payable

\$1,300,000 Limited Tax General Obligation Bond Issue Dated November 1, 1995 of Huron Shore Regional Utility Authority (Water and Sewer System No. 1 Bonds)

Said bonds are issued for the purpose of financing the construction of additions, extensions, improvements and related appurtenances to the Huron Shore Regional Utility Authority's water and sewer system. The payments of principal and interest are made from the proceeds of contractual payments to be made by the City of Tawas City, the Charter Townships of Oscoda and AuSable and the Township of Baldwin. The municipalities have pledged their full faith and credit for the payment of their contractual payments. The Authority has pledged the contractual payments and its full faith and credit for payment.

Annual Principal and Interest Requirements

<u>Calendar Year</u>	<u>May 1 Principal</u>	<u>May 1 Interest</u>	<u>November 1 Interest</u>	<u>Total Future Annual Requirements</u>
2008	\$ 75,000	\$ 23,079	\$ 21,034	\$ 119,113
2009	75,000	21,035	18,971	115,006
2010	100,000	18,972	16,171	135,143
2011	100,000	16,172	13,359	129,531
2012	100,000	13,360	10,546	123,906
2013	125,000	10,547	7,031	142,578
2014	125,000	7,031	3,516	135,547
2015	<u>125,000</u>	<u>3,516</u>	<u>0</u>	<u>128,516</u>
	<u>\$ 825,000</u>	<u>\$ 113,712</u>	<u>\$ 90,628</u>	<u>\$ 1,029,340</u>

\$7,930,000 Limited Tax General Obligation Bond Issue Dated May 1, 1996 of Huron Shore Regional Utility Authority (Water System No. 2 Bonds)

Said bonds are issued for the purpose of financing construction of a new water supply system to serve the cities of East Tawas and Tawas City, the Charter Townships of AuSable and Oscoda and the Township of Baldwin. The construction was originally funded with the proceeds of the Iosco County Limited Tax General Obligation Bonds dated March 1, 1991. The payments of principal and interest are made from the proceeds of contractual payments to be made by the above-mentioned municipalities. The municipalities have pledged their full faith and credit for the payment of their contractual payments. The Authority has pledged the contractual payments and its full faith and credit for payment.

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 4 - LONG-TERM DEBT (CONTINUED)

\$7,930,000 Limited Tax General Obligation Bond Issue Dated May 1, 1996 of Huron Shore Regional Utility Authority (Water System No. 2 Bonds) (Continued)

<u>Annual Principal and Interest Requirements</u>				<u>Total Future Annual Requirements</u>
<u>Calendar Year</u>	<u>May 1 Interest</u>	<u>May 1 Principal</u>	<u>November 1 Interest</u>	
2008	\$ 47,031	\$ 570,000	\$ 47,031	\$ 664,062
2009	31,499	565,000	31,499	627,998
2010	<u>15,820</u>	<u>560,000</u>	<u>15,820</u>	<u>591,640</u>
	<u>\$ 94,350</u>	<u>\$ 1,695,000</u>	<u>\$ 94,350</u>	<u>\$ 1,883,700</u>

The annual principal requirements for the years ending December 31, 2008 through 2012 for all debts outstanding as of December 31, 2007 are as follows:

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
General Obligation Bonds	<u>\$ 645,000</u>	<u>\$ 640,000</u>	<u>\$ 660,000</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>

The following is a summary of long-term debt transactions of the Authority:

	<u>Balance 01/01/07</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance 12/31/07</u>	<u>Due Within One Year</u>
General Obligation Bonds	<u>\$ 3,175,000</u>	<u>\$ 0</u>	<u>\$ 655,000</u>	<u>\$ 2,520,000</u>	<u>\$ 645,000</u>

NOTE 5 - RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Authority continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 6 - RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (199,465)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	381,789
Changes in assets and liabilities:	
Decrease in prepaid expenses	4,850
Decrease in accounts payable	(2,991)
Decrease in deferred revenue	<u>(4,120)</u>
Net cash provided by operating activities	<u>\$ 180,063</u>

HURON SHORE REGIONAL UTILITY AUTHORITY
Iosco County, Michigan

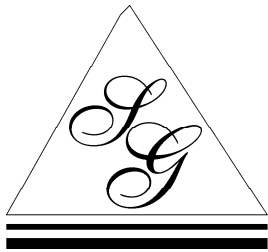
NOTES TO FINANCIAL STATEMENTS
For the Year Ended December 31, 2007

NOTE 7 - MAINTENANCE CONTRACT

The Huron Shore Regional Utility Authority contracts with an outside firm to provide all routine operation and maintenance of the Authority's facilities. A monthly fee is paid to the firm for standard services and is subject to an annual review. For the year ended December 31, 2007, the total amount paid to the firm was \$516,620.

NOTE 8 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Authority's financial position and operations. Some prior year balances have been reclassified to conform with the current year presentation.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
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Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

March 5, 2008

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Members of the Board
Huron Shore Regional Utility Authority
Iosco County, Michigan

We have audited the financial statements of the business-type activities of the Huron Shore Regional Utility Authority, Iosco County, Michigan, as of and for the year ended December 31, 2007, which collectively comprise the Huron Shore Regional Utility Authority's basic financial statements and have issued our report thereon dated March 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Huron Shore Regional Utility Authority's internal control over financial reporting as a basis of designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Huron Shore Regional Utility Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Huron Shore Regional Utility Authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified one deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Huron Shore Regional Utility Authority's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Huron Shore Regional Utility Authority's financial statements that is more than inconsequential will not be prevented or detected by the Huron Shore Regional Utility Authority's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

Financial Statement Preparation

The Huron Shore Regional Utility Authority prepares various financial information throughout the year to assess operations and the financial condition of the Authority. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Authority relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

Members of the Board
Huron Shore Regional Utility Authority
March 5, 2008
Page Two

The Huron Shore Regional Utility Authority has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Authority is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Authority would not be in a position to detect the errors or omissions.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Huron Shore Regional Utility Authority's internal control.

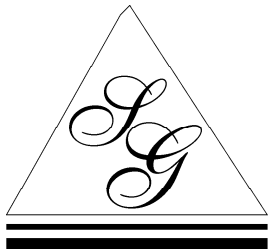
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above not to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Huron Shore Regional Utility Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Members of the Board, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grubb & Co., P.C.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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March 5, 2008

Members of the Board
Huron Shore Regional Utility Authority
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the business-type activities of the Huron Shore Regional Utility Authority for the year ended December 31, 2007, and have issued our report thereon dated March 5, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 27, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Huron Shore Regional Utility Authority. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Huron Shore Regional Utility Authority's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Huron Shore Regional Utility Authority are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Huron Shore Regional Utility Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Huron Shore Regional Utility Authority's financial reporting process (that is, cause future financial statements to be materially misstated). The audit adjustments, which include material misstatements detected as a result of audit procedures, were provided to and corrected by Management.

Members of the Board
Huron Shore Regional Utility Authority
March 5, 2008
Page Two

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Huron Shore Regional Utility Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Additional Information

As a result of our study and evaluation of the internal controls and compliance as described in the third and fourth paragraphs, certain matters came to our attention upon which we would like to comment and offer the following recommendation.

Financial Statement Preparation

The Huron Shore Regional Utility Authority prepares various financial information throughout the year to assess operations and the financial condition of the Authority. However, prior to the closing of the year end, various entries material to the financial statements were proposed by our firm. Also, the Authority relies on our firm to assist in preparing the annual financial report in accordance with Generally Accepted Accounting Principles.

The Huron Shore Regional Utility Authority has individuals on staff to review that the financial report is accurate and the financial information reflects the recording of the proposed entries, however, not to review and determine that the financial report is a complete presentation in accordance with Generally Accepted Accounting Principles. As a result, the Authority is considered to have a significant control deficiency, since reporting errors or omissions could occur in the preparation of the annual financial report that would be departures from Generally Accepted Accounting Principles and the Authority would not be in a position to detect the errors or omissions.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Huron Shore Regional Utility Authority.

This information is intended solely for the use of management, the Members of the Board and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Graub & Co., P.C.